

Determining the Impact of Local Government Spending on Community and Economic Development

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Research Question

- What impact does spending by county governments on community and economic development have?
- What improvement is seen in the local economy, community vitality, and quality of life as a result of this spending?



Background Literature

- Eisinger outlined different funding mechanisms used by local, state gov't
- Importance of funding (e.g., grants) for development projects stressed
- Calls for evaluation of development-related programs beginning to be heard



Background Literature

- Peters and Fisher say that economic development incentives have little if any affect on business decisions
- Bartik says that incentives can lead to increased employment but also can be wasteful and counterproductive



Research Setting

- County governments in West Virginia spent a combined \$65 million over the last 10 years on community and economic development activities
- Spending at the county level ranged from almost nothing to over \$1 million per year



Research Methodology

- Spending is the independent variable
 - Central tendencies
 - Three-year averages
 - Minimums and maximums
 - Indexes
 - Change rates
 - Per capita amounts



Research Methodology

- Indicators of community vitality, economic improvement are dependent variables
 - Unemployment rate related variables
 - Employment variables
 - Wages variables
 - Businesses units variables
 - Population change variables



Research Methodology

- 520 regression analyses performed
 - Single regression using 10 different total spending variables
 - Single regression using 7 different per capita spending variables
 - Multiple regression using 6 different variable combinations



Research Findings

- 91 statistically significant regressions
 - 37 for the total spending variables
 - 19 for the per capita spending variables
 - 35 for the multiple regressions
- Not all variables had significant regressions
 - 6 independent variables
 - 7 dependent variables



Research Findings

- Multiple regression equations had highest explanatory power
 - 11 equations had R^2 greater than 0.50
- Issues related to coefficient found in those equations limit their utility
 - Near zero
 - Contradictory signs



Research Findings

- Single regressions had less explanatory power but still had same issues
 - 27 of the significant equations using total spending variables had near zero coefficients
 - 16 of the significant equations using per capita spending variables had inverted relationships
 - No equation had an R^2 greater than 0.15



Research Discussion

- Findings much closer to what Peters and Fisher found with respect to incentives than what Bartik postulated
- Other factors may be at work that are not fully captured by the data or the analysis (i.e., spending levels reactive to changes)



Research Agenda

- Incorporate additional spending data (including municipalities, authorities, etc.)
- Add non-spending independent variables into the analysis
- Use different analytical tool to investigate potential bi-directional relationship



Research Conclusion

- Only after all matters have been considered can a true understanding of the impact that local government spending has on community and economic development be fully understood.

